

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
**Financial Statements With Independent Auditor's Reports  
and Supplementary Information**  
**Years Ended June 30, 2016 and 2015**



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## Independent Auditor's Report

Board of Directors  
The University of Mississippi Research Foundation  
University, Mississippi

### Report on the Financial Statements

We have audited the accompanying basic financial statements of The University of Mississippi Research Foundation (a component unit of the University of Mississippi), which are comprised of the statements of net position as of June 30, 2016 and 2015, and the statements of revenues, expenses and changes in net position and statements of cash flows and the notes to the basic financial statements for the years then ended, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Mississippi Research Foundation as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016, on our consideration of The University of Mississippi Research Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University of Mississippi Research Foundation's internal control over financial reporting and compliance.

***BKD, LLP***

# **THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2016 and 2015

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## **Introduction**

Management's discussion and analysis serves to provide an introductory overview of the financial position and performance of The University of Mississippi Research Foundation (the "Foundation"). This discussion and analysis has been prepared by management and should be considered in conjunction with the financial statements and accompanying note disclosures. Three financial statements are presented: the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows. The emphasis of discussions about these statements will be on the current year in comparison to the Foundation's financial results for the previous two years. While audited financial statements for fiscal year 2014 are not presented with this report, operational and financial position data will be presented in this section in order to illustrate certain increases and decreases.

## **The Foundation**

The Foundation was established in 1999. The main purpose of the Foundation is to promote the development, implementation and coordination of sponsored research and new technologies at the University of Mississippi (the "University").

## **Mission**

The Foundation is organized and operates for scientific, literary, charitable and educational purposes exclusively for the benefit of the University.

## **Statements of Net Position**

The statements of net position present the financial position of the Foundation at the end of each fiscal year. The components of the statements include assets, liabilities and net position. Assets and liabilities are presented as current or noncurrent, giving the reader a sense of the availability of assets on a short-term and long-term basis, as well as the Foundation's ability to meet immediate and future obligations. The net position (assets minus liabilities) section presents a snapshot of the Foundation's overall net worth. This section is categorized to communicate to readers the degree of availability of the net position to meet organizational obligations.

Net position is divided into three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets provides a snapshot of the Foundation's net equity in property, plant and equipment. Net position is classified as restricted when limitations or restrictions are placed on its use by external parties. The restricted component of net position is subdivided into two categories, expendable and nonexpendable. The expendable restricted component of net position is available for expenditures by the Foundation but must be used in accordance with the intent of the appropriate external parties. The unrestricted component of net position is available to the Foundation for any lawful purpose of the Foundation.

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**Condensed Statements of Net Position**

<b>June 30,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Current assets	\$ 624,704	\$ 616,858	\$ 523,488
Noncurrent assets	14,651,824	15,080,370	15,557,835
<b>Total assets</b>	<b>15,276,528</b>	<b>15,697,228</b>	<b>16,081,323</b>
<b>Liabilities</b>			
Current liabilities	78,676	104,617	113,115
Noncurrent liabilities	120,268	135,024	220,427
<b>Total liabilities</b>	<b>198,944</b>	<b>239,641</b>	<b>333,542</b>
<b>Net Position</b>			
Net investment in capital assets	14,651,824	15,032,156	15,412,488
Restricted - expendable	189,215	314,123	531,808
Unrestricted (deficit)	236,545	111,308	(196,515)
<b>Total net position</b>	<b>\$ 15,077,584</b>	<b>\$ 15,457,587</b>	<b>\$ 15,747,781</b>

During fiscal years 2016 and 2015, total assets decreased \$420,700 and \$384,095, respectively, and total liabilities decreased \$40,697 and \$93,901, respectively. These changes resulted in decreases in net position of \$380,003 and \$290,194 for the years ended June 30, 2016 and 2015, respectively. The change in total assets each year results primarily from depreciation on the Research Park fixed assets and the current year recognition of the uncollectible portion of the pledge receivable accounting for the larger decrease for fiscal year 2016. The reduction in liabilities from fiscal year 2014 resulted primarily from the completion and final payout of construction liabilities. The initial construction phase of the Research Park was completed during fiscal year 2012, with build out of unfinished space continuing during fiscal year 2013 and the first quarter of fiscal year 2014.

Current assets consist of cash, accounts receivable and prepaid ground lease. Accounts receivable are rental payments due from Research Park tenants. The prepaid amounts for the current and prior fiscal year are for the Foundation's ground lease with the University. During fiscal year 2012, the Foundation received a \$500,000 pledge designated for the Pii Center for Pharmaceutical Technology at the University to be paid to the Foundation in semiannual payments through fiscal year 2017. The current portions of the pledge receivable of \$97,133 and

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\$97,842 were included in current assets as of June 30, 2015 and 2014, respectively. During fiscal year 2016, the final two payments of the pledge were deemed uncollectible and were recognized as a reduction in gifts and contribution revenue. For fiscal year 2014, current assets included a grant receivable representing cost reimbursements from the Foundation's grant through the United States Department of Commerce for the construction of the Research Park.

For the current and prior fiscal year, noncurrent assets primarily consisted of capital assets, net. The long-term portions of the pledge receivable of \$48,214 and \$145,347 were also included in noncurrent assets as of June 30, 2015 and 2014, respectively.

Current liabilities primarily consist of accounts payable and accrued liabilities for amounts due to the University and third parties for services rendered or goods received. Lease deposits and unearned revenue from Research Park tenants are also included as current liabilities. During fiscal year 2013, the University's Division of Technology Management advanced funds to a University account in support of the Foundation's Research Park. These funds will be repaid through rental income derived from the Research Park's conference and seminar rooms. The estimated amounts to be repaid in fiscal years 2017 and 2016 of \$4,000 each year are reflected as other current liabilities, with the remaining balance of \$82,624 and \$86,971 included in noncurrent other liabilities at June 30, 2016 and 2015, respectively. Included in other liabilities for each year presented are the current and noncurrent portions of the Foundation's start-up utilities owed to the University, along with ground lease payable to the University for fiscal year 2014.

Net investment in capital assets is the largest component of net position and represents the initial construction phase of the Research Park completed during fiscal year 2012 and the build out of unfinished space during fiscal years 2014 and 2013.

The restricted - expendable component of the Foundation's net position primarily consists of funds received in the current and prior fiscal years for support of the International Conference on the Science of Botanicals hosted by the University's National Center for Natural Products Research and other funds received in support of various University conferences and programs.

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**Statements of Revenues, Expenses and Changes in Net Position**

The changes in net position presented in the statements of net position are based on the activity included in the statements of revenues, expenses and changes in net position. The purpose of these statements is to present all revenues earned and expenses incurred by the Foundation.

These statements present these activities as either operating or nonoperating. In general terms, operating revenues are revenues earned as a result of providing goods or services. Operating expenses are those expenses incurred to acquire or produce goods and services, or to support the mission of the Foundation. The net result of operating activities is presented as operating income or loss. Since a portion of the Foundation's revenues and expenses is classified as nonoperating, including gifts and contributions revenue and support for University activities, "increase (decrease) in net position" is more indicative of the overall financial results for a fiscal year.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

<b>Years Ended June 30,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 579,875	\$ 774,361	\$ 846,588
Operating expenses	<u>824,555</u>	<u>958,458</u>	<u>1,207,430</u>
Operating loss	(244,680)	(184,097)	(360,842)
Nonoperating revenues (expenses)	<u>(135,323)</u>	<u>(106,097)</u>	<u>91,815</u>
Increase (decrease) in net position	<u>\$ (380,003)</u>	<u>\$ (290,194)</u>	<u>\$ (269,027)</u>

The majority of revenues for the current and prior fiscal year were derived from lease income from Research Park tenants, support from the University and funds received in support of various University conferences and programs.

During the fiscal year ended June 30, 2014, the Foundation recognized operating and nonoperating revenues from its grant through the United States Department of Commerce National Institute of Standards and Technology for the Research Park of \$238,929. Additionally, during fiscal year 2014, the Foundation recognized \$306,981 in net realized and unrealized gains on marketable securities. There were no grant revenues or gains on marketable securities for the current or prior fiscal year, as the Foundation's grant ended September 30, 2013, and all investments were sold during the year ended June 30, 2014.

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Operating expenses are depicted in the statements of revenues, expenses and changes in net position by the type of goods or services purchased.

The Foundation's nonoperating expenses are support for University activities. These nonoperating expenses were significantly greater in the fiscal year ended June 30, 2014, due to the distribution of proceeds received from the sale of the Foundation's marketable securities to the University.

## Statements of Cash Flows

The statements of cash flows provide another perspective of financial activities and results. These statements present information about the activities on a cash basis utilizing four categories. The cash flows from operating activities section summarize cash generated and used through operating activities. The cash flows from noncapital financing activities section summarize the cash paid to the University for research activities, the cash generated from private grants and donations and other nonoperating cash receipts. Cash flows from capital and related financing activities section summarize the cash used for acquisition, construction, renovation and improvement of capital and related assets. Finally, the cash flows from the investing activities section summarize proceeds from any sales of investments and interest income received.

During each fiscal year, the Research Park has increased tenant occupancy, providing additional increases in cash from operating activities for the Foundation. Cash used in noncapital financing activities in the current and prior fiscal year were substantially less than fiscal year 2014. This change in cash used in noncapital financing activities resulted from the Foundation's sale of all remaining marketable securities during fiscal year 2014 and the subsequent distribution of those proceeds to the University.

## Condensed Statements of Cash Flows

<b>Years Ended June 30,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash provided by (used in)</b>			
Operating activities	\$ 217,625	\$ 182,331	\$ 55,568
Noncapital financing activities	(135,528)	(106,287)	(667,007)
Capital and related financing activities	-	-	32,920
Investing activities	205	190	647,500
	<hr/>	<hr/>	<hr/>
Increase in cash	\$ 82,302	\$ 76,234	\$ 68,981

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**Capital Assets and Debt Administration**

The Foundation was founded for the purpose of supporting the research and other externally sponsored academic activities of the University. It operates primarily as a grants and contributions management organization and, as such, will maintain limited amounts of capital assets and long-term liabilities related to the Research Park.

**Management's Outlook**

The award received from the United States Department of Commerce that provided funding for certain Research Park related operations and final construction projects within the Research Park ended September 30, 2013. The Foundation continues discussions with potential anchor tenants for the Research Park, including those who are interested in building out the remaining space in the existing building and those who are interested in new construction opportunities.

The Foundation continues to be a resource to the University's faculty, assisting them with managing gifts for research purposes and for the support of important conferences and meetings. This resource allows some important flexibility, particularly in regard to working with private partners. The Foundation will continue to work with faculty to develop strengths and capacity and encourage technology transfer.

**Requests for Information**

This report is designed to provide an overview of the Foundation's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Vice Chancellor for Research and Sponsored Programs at 313 Lyceum, University, Mississippi 38677.

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	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 572,420	\$ 490,118
Accounts receivable	1,185	145
Prepaid ground lease	51,099	29,462
Pledge receivable, net	-	97,133
Total current assets	624,704	616,858
Noncurrent assets		
Pledge receivable	-	48,214
Capital assets, net	14,651,824	15,032,156
Total noncurrent assets	14,651,824	15,080,370
Total assets	15,276,528	15,697,228
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	36,456	17,778
Lease deposits	13,166	12,815
Other liabilities	26,000	38,000
Unearned revenue	3,054	36,024
Total current liabilities	78,676	104,617
Noncurrent liabilities		
Other liabilities	120,268	135,024
Total liabilities	198,944	239,641
<b>NET POSITION</b>		
Net investment in capital assets	14,651,824	15,032,156
Restricted - expendable	189,215	314,123
Unrestricted	236,545	111,308
Total net position	\$ 15,077,584	\$ 15,457,587

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Operating revenues		
Lease income	\$ 440,497	\$ 418,664
Rental income	-	350
University support	139,378	355,347
Total operating revenues	<u>579,875</u>	<u>774,361</u>
Operating expenses		
Contractual services	437,918	559,514
Depreciation	380,332	380,332
Commodities	6,305	18,612
Total operating expenses	<u>824,555</u>	<u>958,458</u>
Operating loss	<u>(244,680)</u>	<u>(184,097)</u>
Nonoperating revenues (expenses)		
Interest income	205	190
Other income	11,805	-
Gifts and contributions	42,653	167,789
Support for University activities	(189,986)	(274,076)
Total nonoperating revenues (expenses)	<u>(135,323)</u>	<u>(106,097)</u>
Decrease in net position	(380,003)	(290,194)
Net position, beginning of year	<u>15,457,587</u>	<u>15,747,781</u>
Net position, end of year	<u>\$ 15,077,584</u>	<u>\$ 15,457,587</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Receipts from University and tenants	\$ 439,457	\$ 430,631
Payments to vendors and contractors	(301,835)	(510,023)
University support and other receipts	80,003	261,723
Net cash provided by operating activities	<u>217,625</u>	<u>182,331</u>
<b>Noncapital financing activities</b>		
Received from private grants and donations	42,653	167,789
Payments to University for research activities	(189,986)	(274,076)
Other receipts	11,805	-
Net cash used in noncapital financing activities	<u>(135,528)</u>	<u>(106,287)</u>
<b>Investing activities</b>		
Interest received	205	190
Net cash provided by investing activities	<u>205</u>	<u>190</u>
Increase in cash	82,302	76,234
Cash, beginning of year	<u>490,118</u>	<u>413,884</u>
Cash, end of year	<u>\$ 572,420</u>	<u>\$ 490,118</u>
<b>Reconciliation of net operating revenues (expenses) to net cash used in operating activities</b>		
Operating loss	\$ (244,680)	\$ (184,097)
Depreciation	380,332	380,332
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	(1,040)	11,617
Pledge receivable, net	145,347	97,842
Prepaid ground lease	(21,637)	(29,462)
Accounts payable and accrued liabilities	18,678	(277)
Unearned revenue	(32,970)	34,358
Lease deposits	351	7,816
Other liabilities	(26,756)	(135,798)
Net cash provided by operating activities	<u>\$ 217,625</u>	<u>\$ 182,331</u>

See accompanying notes to financial statements.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Summary of Significant Accounting Policies**

Nature of Operations and Reporting Entity

The University of Mississippi Research Foundation (the “Foundation”) is a not-for-profit Mississippi corporation established to promote the development, implementation and coordination of sponsored research and new technologies at the University of Mississippi (the “University”) in the furtherance of the University’s education objectives. The Foundation is considered to be an affiliate and component unit of the University because its economic resources are almost entirely for the direct benefit of the University. Additionally, the Foundation’s sole corporate member is the Chancellor of the University.

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on an accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay. The Foundation reports as a Business-Type Activity (“BTA”) as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities (an amendment of GASB Statement No. 34)*. BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB, including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 35. The presentation required by GASB Statement No. 34, GASB Statement No. 35 and GASB Statement No. 63 provides a comprehensive, entity-wide perspective of the Foundation’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

GASB establishes the standards for external financial reporting for governmental entities and requires that resources be classified for accounting and reporting purposes into the following three net position components:

- Net investment in capital assets – Capital assets, net of accumulated depreciation.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

- Restricted – External restrictions on net position reduced by liabilities and deferred inflows of resources related to those assets.

*Nonexpendable* – Net position component subject to externally imposed stipulations that they be maintained in perpetuity by the Foundation.

*Expendable* – Net position component whose use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Unrestricted – Net position component whose use by the Foundation is not subject to externally imposed stipulations. The unrestricted component of net position may be designated for specific purposes by action of management or the board of directors or may otherwise be limited by contractual agreements with outside parties.

The Foundation follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

In connection with the preparation of the financial statements, management of the Foundation evaluated subsequent events through the date of the Independent Auditor's Report, which was the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

Accounts Receivable

Accounts receivable consist of amounts due from tenants of the Foundation's Research Park ("Research Park").

Pledge Receivable

During the year ended June 30, 2012, the Foundation received a donation restricted for the support of the Pii Center for Pharmaceutical Technology at the University. These funds were to be paid to the Foundation in semiannual payments through fiscal year 2017 and were reflected at their net present value using a 0.73% discount rate for the year ended June 30, 2015.

During the fiscal year 2016, the donor notified the Foundation that the final two payments of the pledge would not be made. Accordingly, the uncollectible pledge receivable of \$96,781 was recognized as a reduction to gifts and contributions revenue in the accompanying financial statements for the year ended June 30, 2016.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. Renovations and improvements to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Expenditures for construction in progress are capitalized as incurred.

Depreciation on assets placed in service will be computed using the straight-line method over the estimated useful life of the asset, generally 40 years for buildings, 20 years for improvements other than buildings and 3 to 15 years for equipment.

Revenue Recognition

Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are capital related and investment income are included in nonoperating revenues. The Foundation first applies the restricted component of

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted components of net position are available.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as restricted net position.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

**Note 2. Deposits**

The Foundation does not have formal policies regarding deposits and related risks.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Foundation maintains its cash in deposit accounts which, at times, can exceed federally insured limits. At June 30, 2016 and 2015, the Foundation's bank balances were \$573,329 and \$495,491, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

At June 30, 2016, the Foundation's cash accounts exceeded federally insured limits by approximately \$194,000.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Continued**

Summary of Carrying Values

The carrying values of deposits are included in the statements of net position as follows:

	<b>2016</b>	<b>2015</b>
Carrying value		
Deposits	\$ 572,420	\$ 490,118
Included in the following statements of net position		
Cash	572,420	490,118

In October 2008, the Foundation entered into an investor’s rights agreement with CENTRI Technology, Inc. (“CENTRI”), which is a data computer software company. On October 20, 2008, the Foundation was granted 1,431,667 shares of common stock in CENTRI. During the year ended June 30, 2012, the Foundation was granted 540,345 shares of preferred stock and an additional 225,204 shares of common stock in CENTRI. As of June 30, 2016 and 2015, the Foundation owned 2,197,216 shares of CENTRI stock. No value has been assigned to these shares, as there is no readily determinable market value, and such shares were acquired without any cost to the Foundation as a result of a licensing agreement between CENTRI and the University.

**Note 3. Transactions with the University of Mississippi**

During the year ended June 30, 2007, the Foundation was awarded a grant from the National Institute of Standards and Technology (“NIST”) in the amount of \$19,744,560 for the development of the Research Park to be constructed on property of the University. In connection therewith, the Foundation and the University entered into a development agreement, wherein the Foundation will lease certain parcels of land owned by the University under a ground lease arrangement for the development of the Research Park. The Foundation has constructed roadways, utilities, buildings, common areas and other necessary infrastructure for the operation of the Research Park on the leased property. Pursuant to the agreement and upon the completion of the site work related to the project, the Foundation will convey the site work at the Research Park to the University by a special warranty bill of sale. At that time, the University will assume all obligations and liabilities for the maintenance repair, upkeep, supervision and control of the Research Park site work and related assets conveyed. Effective July 6, 2011, the NIST grant was amended to add the University as a co-recipient of the award.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 3. Continued**

Amounts paid on behalf of the Foundation by the University in support of Research Park operations are included as expenses with corresponding University support revenue in the accompanying financial statements. For the years ended June 30, 2016 and 2015, the Foundation recognized expenses and University support revenue of \$139,378 and \$355,347, respectively.

Research Park utilities provided through the University for the years ended June 30, 2016 and 2015 totaled \$167,700 and \$150,616, respectively. Amounts owed to the University for utilities at June 30, 2016 and 2015 were \$73,650 and \$97,322, respectively, and are included in accounts payable and accrued liabilities and other liabilities in the accompanying statements of net position.

During the year ended June 30, 2013, the University's Division of Technology Management advanced funds to a University account in support of the Foundation's Research Park. These funds will be repaid through rental income derived from the Research Park's conference and seminar rooms. At June 30, 2016, amounts owed to the University for rental income totaled \$89 which is included in accounts payable in the accompanying statements of net position. The estimated amounts to be repaid in the fiscal years 2017 and 2016 of \$4,000 and \$4,000, respectively, are reflected as other current liabilities with the remaining balance of \$82,712 and \$86,971 included in noncurrent other liabilities at June 30, 2016 and 2015, respectively.

The Foundation provided support of \$189,986 and \$274,076 for University research activities during the years ended June 30, 2016 and 2015, respectively, of which \$22,359 and \$2,507 are included in accounts payable and accrued liabilities at June 30, 2016 and 2015, respectively, in the accompanying statements of net position.

Under an agreement to allow the University to occupy certain suites at the Research Park, the Foundation's ground lease payable was reduced and lease income of \$40,252 and \$39,681 was recognized for the years ended June 30, 2016 and 2015, respectively.

The ground lease entered into during fiscal year 2010 between the Foundation and the University was based on an appraisal which set the annual lease value at \$35,550 per acre. Lease expense and a corresponding other liability were recorded by the Foundation based upon this rate from inception of lease through June 30, 2013. During the year ended June 30, 2014, it was determined the initial appraisal did not take into consideration the limited use nature of the property due to its location on the University campus. Two additional appraisals were obtained by the University resulting in a revised annual lease value of \$3,685 per acre. Accordingly, the University forgave \$441,580 of the amount owed by the Foundation for the ground lease to account for the difference in ground lease costs based upon the initial and subsequent appraisals

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 3. Continued**

from inception of the lease through fiscal year 2014. For the year ended June 30, 2015, \$105,194 of the amount forgiven is included as nonoperating gift and contribution revenue in the accompanying financial statements. Rent expense and future minimum rental payments reflected in Note 6. Operating Leases are based upon the revised annual lease value.

**Note 4. Capital Assets**

Capital assets activity for the years ended June 30, 2016 and 2015 was:

<b>June 30, 2016</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	1,634,759	-	-	1,634,759
Land improvements	263,146	-	-	263,146
Equipment	106,210	-	-	106,210
	<u>14,640,904</u>	-	-	<u>14,640,904</u>
Accumulated depreciation	(1,287,177)	(380,332)	-	(1,667,509)
	<u>13,353,727</u>	<u>(380,332)</u>	-	<u>12,973,395</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	18,000	-	-	18,000
	<u>1,678,429</u>	-	-	<u>1,678,429</u>
Capital assets, net	<u>\$ 15,032,156</u>	<u>\$ (380,332)</u>	<u>\$ -</u>	<u>\$ 14,651,824</u>

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Continued**

<b>June 30, 2015</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	1,634,759	-	-	1,634,759
Land improvements	263,146	-	-	263,146
Equipment	106,210	-	-	106,210
	<u>14,640,904</u>	<u>-</u>	<u>-</u>	<u>14,640,904</u>
Accumulated depreciation	(906,845)	(380,332)	-	(1,287,177)
	<u>13,734,059</u>	<u>(380,332)</u>	<u>-</u>	<u>13,353,727</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	18,000	-	-	18,000
	<u>1,678,429</u>	<u>-</u>	<u>-</u>	<u>1,678,429</u>
Capital assets, net	<u>\$ 15,412,488</u>	<u>\$ (380,332)</u>	<u>\$ -</u>	<u>\$ 15,032,156</u>

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
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Years Ended June 30, 2016 and 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Other Liabilities**

Other liabilities consist of the following amounts owed to the University at June 30, 2016 and 2015:

<b>June 30, 2016</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Start-up utilities	\$ 82,053	\$ -	\$ 22,409	\$ 59,644
Due to Technology Management	90,971	-	4,347	86,624
	173,024	-	26,756	146,268
Less current portion				<u>(26,000)</u>
Noncurrent other liabilities				<u>\$ 120,268</u>

<b>June 30, 2015</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Ground lease	\$ 96,783	\$ 18,630	\$ 115,413	\$ -
Start-up utilities	116,427	-	34,374	82,053
Due to Technology Management	95,612	-	4,641	90,971
	308,822	18,630	154,428	173,024
Less current portion				<u>(38,000)</u>
Noncurrent other liabilities				<u>\$ 135,024</u>

**Note 6. Operating Leases**

Leased property under operating leases consisted of a copier with a lease term of 36 months payable in equal monthly installments of \$240 which ended during fiscal year 2016, and a ground lease with the University with an initial lease term of 40 years, payable in equal monthly installments, to be adjusted annually in proportion to the increase in the Consumer Price Index. The ground lease provides an option to renew for up to one additional 40-year term.

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(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2016 and 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 6. Continued**

The future amounts of rental payments required by the Foundation's noncancelable operating ground lease as of June 30, 2016, are as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2017	\$ 18,775
2018	18,775
2019	18,775
2020	18,775
2021	18,775
2022 - 2026	93,873
2027 - 2031	93,873
2032 - 2036	93,873
2037 - 2041	93,873
2042 - 2046	93,873
2047 - 2050	71,969
	<u>\$ 635,209</u>

Total rental expense for operating leases for the years ended June 30, 2016 and 2015 was \$21,494 and \$21,606, respectively. Cumulative amounts prepaid to the University for the ground lease as of June 30, 2016 and 2015 were \$51,099 and \$29,462, respectively. Such amounts are presented as prepaid ground lease in the accompanying statements of net position.

**Note 7. Commitments and Contingencies**

The Foundation has participated in certain federal sponsored programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement from the granting agency for expenditures disallowed under the terms of the grant. Management believes disallowances, if any, will not have a material adverse impact on the financial position of the Foundation.

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Years Ended June 30, 2016 and 2015

**NOTES TO FINANCIAL STATEMENTS**

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**Note 8. Risk Management**

The Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions and natural disasters. The Foundation has commercial coverage for claims arising from such matters. There have been no claims against the Foundation.

**Independent Auditor’s Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance With  
Government Auditing Standards**

Board of Directors  
The University of Mississippi Research Foundation  
University, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of The University of Mississippi Research Foundation (the “Foundation”) [a component unit of the University of Mississippi], which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 22, 2016.

***Internal Control Over Financial Reporting***

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Foundation’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### ***Compliance***

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Jackson, Mississippi  
September 22, 2016